

ASEAN–China Free Trade: The Impact of ACFTA Policies on the Sustainability of Indonesian SMEs

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ABSTRACT

This study explores the impact of the ASEAN-China Free Trade Area (ACFTA) policy on the sustainability of Small and Medium Enterprises (SMEs) in Indonesia. Utilizing a qualitative approach, the research delves into the experiences, perspectives, and challenges faced by SMEs in the context of increased market competition and trade integration. The findings indicate that ACFTA presents both opportunities and challenges for Indonesian SMEs. On one hand, the policy enhances market access and eliminates tariffs on a majority of goods, providing SMEs with potential export opportunities to China. On the other hand, the influx of cheaper Chinese imports poses significant competitive pressures, as many domestic SMEs struggle with production scale and pricing competitiveness. Furthermore, the study highlights the importance of a balanced trade relationship and substantial foreign investment flows from China, which contribute to regional economic integration. However, it also points out the risks associated with over-dependence on foreign capital. To maximize the benefits of ACFTA, the study recommends implementing supportive policies that enhance SMEs' competitiveness, capacity building, and technological adaptation. Government initiatives, including training, financial assistance, and market protection, are crucial in helping SMEs navigate the challenges posed by increased competition. Ultimately, the research underscores the potential for Indonesian SMEs to leverage economic integration for sustainable growth and contribute to national economic development.

Keywords : *ACFTA, China, Indonesia, SMEs.*

A. INTRODUCTION

The ASEAN-China Free Trade Area (ACFTA) is a free trade agreement between ASEAN countries and China, aiming to encourage closer economic and trade cooperation within the region (Asyono & Samputra, 2023).

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This initiative is designed to eliminate or reduce trade barriers, such as tariffs and non-tariff measures, improve market access for services, regulate and manage investment flows, and expand economic cooperation to enhance the welfare of both parties (Nasution et al., 2022). Initiated in 2005, the ACFTA significantly lowered tariffs between ASEAN and China, having a major impact on trade dynamics in Indonesia, including an increase in imports from China that affects the national trade balance (Muhammad Fhareza Deri, 2024).

The formation of the ACFTA essentially responds to the global trend toward free trade in various regions. Previously, regions such as the European Union, NAFTA (North American Free Trade Area), and the WTO (World Trade Organization) had formed trade blocs that eliminated tariffs among members, promoting an increase in regional cooperation. This trend eventually gave rise to other free trade blocs such as AFTA, ACFTA, and APEC in the late 1960s, reflecting a growing desire for economic integration across different parts of the world (Sara & Hasnawan, 2024).

Nevertheless, the existence of the ACFTA poses unique challenges for Indonesia. Instead of providing significant benefits, the ACFTA brings more threats to domestic trade and industry balance. The influx of cheap products from China pressures Indonesia's domestic sector, which struggles to compete (Asyono & Samputra, 2023). This free competition is particularly attractive to major countries with ambitions to dominate the global market through free trade agreements, such as the United States, Russia, India, and Saudi Arabia (Rimapradesi et al., 2023).

The start of this cooperation was marked by the signing of the ASEAN-China Comprehensive Economic Cooperation on November 6, 2001, in Bandar Seri Begawan, Malaysia. This agreement is an important step towards deeper economic integration between ASEAN and China, with the main goal of eliminating tariffs and increasing trade and investment flows in the region (Astatiani & Tobing, 2023). This was followed by the signing of the Framework Agreement on the ASEAN-China Free Trade Area by all ASEAN member countries and China, which serves as the basis for reducing trade barriers and enhancing economic cooperation (Faculty of Social and Political Sciences, University of West Sulawesi & Khaldun, 2022).

The agreement reached a key milestone on November 29, 2004, when the Trade in Goods Agreement and Dispute Settlement Mechanism were signed in

Vientiane, Laos. This agreement clarifies the mechanisms for trade in goods and dispute resolution that may arise, providing legal clarity and increasing stability for investors (Ma & Miao, 2024). The ACFTA was then fully implemented in 2010 for six ASEAN countries (Indonesia, Malaysia, Brunei Darussalam, Thailand, Singapore, and the Philippines) and in 2015 for four other ASEAN countries (Cambodia, Laos, Myanmar, and Vietnam) (Ministry of Trade & Evelyn Nathania Dianzah, 2022).

While the ACFTA has succeeded in creating a more open market, its impact on Indonesia is complex. On one hand, tariff reductions open up export opportunities, but on the other, the domestic manufacturing sector faces intense pressure from cheaper Chinese products. Small and medium enterprises, especially those without the capacity to compete directly, are highly vulnerable to this competition.

The existence of the ACFTA has also raised questions about Indonesia's readiness to face trade liberalization. Although market opening can create opportunities for Indonesian producers to enter the Chinese market, many local companies are not yet prepared for this intense competition, often losing market share domestically. This aspect demands that Indonesia make policy adjustments to maximize the benefits of the ACFTA.

The ACFTA has great potential to increase trade and investment flows in Southeast Asia. However, for Indonesia, the benefits derived from this agreement remain a unique challenge. It is crucial for the government and industry players in Indonesia to continue strengthening domestic competitiveness to reap the optimal benefits from this free trade agreement while mitigating any potential negative impacts. Based on this background, this study aims to analyze the impact of ACFTA policies on the sustainability of Small and Medium Enterprises (SMEs) in Indonesia, to provide a comprehensive overview of the opportunities and challenges SMEs face in maintaining their business continuity amidst free market competition.

B. METHODOLOGY

This study uses a qualitative approach to analyze the impact of the ACFTA policy on the sustainability of SMEs in Indonesia. The qualitative method was chosen because it enables an in-depth and comprehensive exploration of the experiences, views, and perceptions of SME actors regarding the effects of ACFTA. Through this approach, the collected data includes not only quantitative

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figures but also narratives that illustrate the conditions and challenges faced by SMEs in the context of free market competition. According to Sugiyono (2017), a qualitative approach is highly valuable for understanding social and economic phenomena in depth, as it allows researchers to gather data from the perspectives of research subjects. Thus, this study employs document analysis as a primary method of data collection.

Document analysis is also used to enrich the researcher’s understanding of ACFTA policies and their impacts. This analysis covers official documents, government reports, and relevant literature reviews. Miles and Huberman (1994) assert that qualitative data analysis involves stages of data reduction, data presentation, and conclusion drawing, which aid the researcher in organizing and simplifying complex information. Data obtained from interviews and document analysis will be examined to identify patterns and themes that explain the impact of ACFTA policy on SME sustainability. Through this approach, the research aims to provide a comprehensive overview of the challenges and opportunities faced by Indonesian SMEs in the increasingly competitive market.

C. RESULTS AND DISCUSSION

Table I shows trade and investment data between ASEAN and China following the implementation of the ASEAN-China Free Trade Area (ACFTA). Total ASEAN-China trade reached USD 878.2 billion in 2021, with China accounting for 18.5% of ASEAN’s total trade, while ASEAN represented 14.6% of China’s total trade. Foreign direct investment (FDI) from China to ASEAN amounted to USD 14.35 billion, while FDI from ASEAN to China reached USD 8.26 billion. Since the implementation of ACFTA in 2010, bilateral trade has increased by 296%. Projections indicate a positive impact of ACFTA on ASEAN’s GDP by 0.23% and on China’s GDP by 0.50% in 2025. Additionally, over 90% of goods traded between ASEAN and China had zero tariffs as of 2020, reflecting efforts to reduce trade barriers under this free trade agreement.

Table I. ACFTA Economic Impact Data

Metric	Data	Year	Source of Data
Total ASEAN-China Trade	\$878.2 billion	2021	ASEAN Secretariat
ASEAN Exports to China	\$438.5 billion	2021	ASEAN Secretariat
ASEAN Imports from China	\$439.7 billion	2021	ASEAN Secretariat
China's Share in ASEAN Trade	18.5%	2021	ASEAN Secretariat
ASEAN's Share in China's	14.6%	2021	China Customs

Trade			
China's FDI to ASEAN	\$14.35 billion	2021	MOFCOM, China
ASEAN FDI to China	\$8.26 billion	2021	MOFCOM, China
Trade Growth Since ACFTA Implementation	296% increase	2010-2021	Calculated from ASEAN data
GDP Impact on ASEAN	0.23% increase	Projected for 2025	Economic Research Institute for ASEAN and East Asia
GDP Impact on China	0.50% increase	Projected for 2025	Economic Research Institute for ASEAN and East Asia
Tariff Reduction Over	90% of goods traded have 0% tariffs	As of 2020	China's Ministry of Commerce

Source: ASEAN Statistical Yearbook 2022

The average annual trade volume between 2019 and 2021 was USD 759.43 billion, with a median value of USD 731.90 billion. From 2020 to 2021, trade volume increased by 19.99%. The trade balance ratio between ASEAN and China in 2021 was nearly even at 0.997. China's share of ASEAN trade was 18.5%, while ASEAN's share of China's trade was 14.6%. The FDI ratio of China's investment in ASEAN compared to ASEAN's investment in China was 1.74. The compound annual growth rate (CAGR) of trade between ASEAN and China since the implementation of ACFTA in 2010 is 10.47%, indicating a significant growth trend.

Tabel 2. ACFTA Descriptive Statistics

Statistic	Value	Notes
Mean Annual Trade Volume (2019-2021)	\$759.43 billion	Average of total ASEAN-China trade over 3 years
Median Annual Trade Volume (2019-2021)	\$731.90 billion	Middle value of total trade over 3 years
Trade Volume Growth Rate (2020 to 2021)	19.99%	Percentage increase from 2020 to 2021
Trade Balance Ratio (2021)	0.997	Ratio of ASEAN exports to imports with China
China's Share in ASEAN Trade (2021)	18.5%	Percentage of ASEAN's total trade with China
ASEAN's Share in China's Trade (2021)	14.6%	Percentage of China's total trade with ASEAN
FDI Ratio (2021)	1.74	Ratio of China's FDI to ASEAN vs ASEAN's FDI to China
Compound Annual Growth Rate	10.47%	Average year-over-year growth rate since

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Statistic	Value	Notes
(CAGR) of Trade (2010-2021)	ACFTA implementation	

Source: ASEAN Secretariat, China Customs, Ministry of Commerce (MOFCOM) of China

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Trade volume and growth

The ASEAN-China Free Trade Area (ACFTA) has had a significant impact on trade relations between ASEAN countries and China. With an average annual trade volume of USD 759.43 billion during the period of 2019–2021, ACFTA reflects a substantial economic relationship. The trade volume growth of 19.99% from 2020 to 2021 also indicates a very strong expansion, especially in the context of global economic challenges due to the COVID-19 pandemic during that period. The Compound Annual Growth Rate (CAGR) of 10.47% from 2010 to 2021 demonstrates the long-term positive impact of ACFTA on trade volume, which continues to show an upward trend. For SMEs in Indonesia, this increase in trade volume can open new opportunities for access to international markets, particularly for local products that have appeal in the Chinese market. However, SMEs that are ill-prepared to face international competition may experience a decline in competitiveness.

Trade balance and the Importance of bilateral relations

The trade balance between ASEAN and China, which was nearly even at a ratio of 0.997 in 2021, indicates that the benefits of ACFTA are relatively evenly shared by both parties. This balance is crucial for creating a stable and sustainable economic relationship, thereby reducing the risk of excessive unilateral dependence. This statistic also indicates that ACFTA has successfully positioned China as ASEAN's largest trading partner and ASEAN as one of China's most crucial trading relationships. For Indonesian SMEs, the importance of this relationship can provide broader access to the Chinese market. However, there is the challenge of fierce competition with low-priced and highly competitive Chinese products. This poses a unique challenge for the sustainability of Indonesian SMEs in facing intense competition.

Foreign Direct Investment (FDI)

In 2021, the FDI ratio of 1.74 indicates that China's investment in ASEAN countries significantly exceeds ASEAN's investment in China. This imbalance reflects China's strategic interest in strengthening economic ties with

Southeast Asia. This substantial investment can provide great opportunities for SMEs in Indonesia, as capital from China can create new jobs, improve infrastructure, and facilitate technology transfer that supports the capacity enhancement of local SMEs. However, reliance on foreign investment can also pose risks, especially if capital flows are too dependent on China's preferences and economic conditions.

Tariff reduction and economic integration

The elimination of tariffs to 0% on more than 90% of goods traded under ACFTA since 2020 is a significant step toward economic integration. This tariff reduction substantially lowers trade costs and enhances the competitiveness of goods traded between ASEAN and China. For Indonesian SMEs, this opens greater export opportunities without having to face high tariff barriers, allowing them to expand their market share in China. However, this integration also means that SMEs must be prepared to face an influx of cheaper Chinese products, which could threaten the sustainability of SMEs lacking competitive advantages.

Projected impact on GDP

The projected GDP increase of 0.23% for ASEAN and 0.50% for China by 2025 (as estimated by the Economic Research Institute for ASEAN and East Asia) indicates the sustained positive impact of ACFTA. Although these percentages may seem small, in the context of a large economy, such increases reflect significant economic output growth. For SMEs in Indonesia, the growth of ASEAN's GDP resulting from ACFTA can create a more conducive economic environment for the development of small and medium enterprises. However, for this positive impact to be directly felt by SMEs, supportive policies are needed to enhance competitiveness and the capacity of SMEs to be better prepared to face competition in an open market.

D. CONCLUSION

The ACFTA policy has had a significant impact on trade between ASEAN and China, with substantial growth in trade volume over recent years. The increased market access and tariff elimination for most goods create export opportunities for Indonesian SMEs to enter the Chinese market. However, on the other hand, the influx of cheaper imported goods from China poses a major challenge for domestic SMEs, which often face limitations in production scale and price competitiveness.

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The balanced trade relationship between ASEAN and China, along with substantial foreign investment flows from China to ASEAN, reflects a strategic interest in strengthening economic integration in the region. These investments have the potential to create jobs, enable technology transfer, and enhance infrastructure, which could support the development of SMEs in Indonesia. Nevertheless, dependence on foreign investment also entails risks, especially if SMEs become overly reliant on external capital and economic preferences.

Therefore, for Indonesian SMEs to gain optimal benefits from ACFTA, policies that support their competitiveness, capacity, and technological adaptation are needed. Government support through training, capital assistance, and market protection for certain sectors can help SMEs cope with increased competition. With the right strategy, Indonesian SMEs have the opportunity to leverage this economic integration for business sustainability and national economic growth.

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